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SIPDIS

PASS TREASURY FOR LUKAS KOHLER

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SUBJECT: AMBASSADOR DISCUSSES GAS PIPELINE AND CMS ENERGY INVESTMENT WITH ENERGY MINISTER

1. Summary: Ambassador Bridgewater made a courtesy call on Minister of Energy Professor Mike Oquaye December 19. The Minister and Ambassador discussed Ghana's preparation for the completion of the West Africa Gas Pipeline, the status of CMS Energy's expansion project, alternative energy sources, offshore oil exploration, and opportunities for American companies in Ghana's energy sector. End Summary.

#### Status of West Africa Gas Pipeline (WAGP)

2. The Ambassador asked about the GoG's preparations for delivery of first gas from the WAGP, which is scheduled to be completed late 2006. The Minister said he was working with the Volta River Authority (VRA -- Ghana's parastatal electricity producer) to ensure that the thermal plants owned by VRA and U.S. energy company CMS Energy (co-located in Takoradi) would be ready to use gas when the pipeline is completed.

3. The Minister also gave a progress report on the creation of a secondary gas market for industrial customers. A regulatory framework -- which is being drafted in partnership with consultants from USAID's Trade and Investment Program for a Competitive Export Economy (TIPCEE) program ) would be submitted to Parliament for legislative action as soon as possible. He said that the Attorney General's office had ruled that no legislation would be needed to draft a tender for a company to act as distributor, and expressed his hope that American companies would bid. (NOTE: If the tender for a distribution company can be put out before the legislation is passed it will speed up the process of creating a secondary gas market in Ghana. END NOTE.)

#### Expansion of CMS Energy Plant

4. The Ambassador and Minister Oquaye also discussed the status of CMS Energy's expansion project for its thermal power plant in Takoradi. The GoG, CMS, and lending agencies are holding a crucial meeting in London on January 9, and Post is working closely with all parties to support their effort to close the deal that will enable the construction to commence.

5. Note: CMS built and operates a 220 MW thermal power plant, and also provides critical technical support to VRA's co-located 330 MW thermal plant. CMS has negotiated for years with the GoG to add a 110 MW steam-powered "second cycle," which will increase output by 50% with no additional fuel costs. This expansion is, therefore, critical for the CMS plant to take full advantage of the WAGP supply of gas. The expanded CMS plant added to VRA's 330 MW plant combined will significantly reduce the cost of electricity in Ghana. Unfortunately, the slow negotiations mean that CMS will complete the construction up to a year after WAGP first gas. End Note)

#### Alternative Energy Sources

6. The Minister said that problems with rural electrification could be reduced if Ghana had greater access to alternative energy sources such as wind and solar power. He said he would like to have further discussions with energy officials from U.S. states and companies with experience in alternative energy production.

#### Offshore Oil Exploration

7. The Ambassador said she had been informed by Amerada-Hess and Kosmos Energy ) two American companies currently in negotiations with the GoG for offshore oil exploration concessions ) that the Minister had been particularly helpful in the negotiations. The Minister said he felt that American companies were, in his opinion, desirable partners since they were committed to exploiting any commercially viable deposits found.

#### Comment

8. The Minister was enthused about the meeting and well prepared to discuss issues in detail. Post's Economic and Commercial Sections will follow up with business contacts to ensure American companies are as engaged in the tender process for the creation of a secondary gas market as they

have been in oil exploration concessions. The U.S. Trade and Development Agency (TDA) has expressed interest in providing a grant to outline the tender requirements for the GoG. This could provide a U.S. company with the opportunity to get in on the ground floor of Ghana's soon-to-be-created gas market.

End Comment.

BRIDGEWATER